

**AUDITED FINANCIAL STATEMENTS
REQUIRED SUPPLEMENTAL INFORMATION
OTHER FINANCIAL INFORMATION
AND SUPPLEMENTAL REPORTS**

**TOWNSHIP OF WATERSMEET
WATERSMEET, MICHIGAN
March 31, 2006**

| | | | | |
|---|---------------------------|---|--|-------------------|
| Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Government Name Watersmeet Township | | County Gogebic |
| Audit Date 3/31/2006 | Opinion Date 7/23/2006 | Date Accountant Report Submitted to State: 9/20/2006 | | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

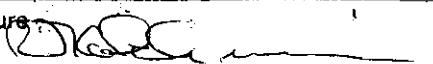
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | x | | |
| Reports on individual federal financial assistance programs (program audits). | | | x |
| Single Audit Reports (ASLGU). | | | x |

| | | | |
|---|------------------|-------------|--------------|
| Certified Public Accountant (Firm Name) Roger J. Kolehmainen PC CPA | | | |
| Street Address 1445 East Cloverland Drive | City Ironwood | State MI | ZIP 49938 |
| Accountant Signature  | | | |

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Roger J. Kolehmainen CPA PC
1445 East Cloverland Drive
Ironwood, MI 49938
(906) 932-3600

INDEPENDENT AUDITOR'S REPORT

Supervisor and Members of the Board
Township of Watersmeet
Watersmeet, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Township of Watersmeet as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these statements based on our audit.


We conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit provides a reasonable basis in our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Township of Watersmeet as of March 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated July 23, 2006, on our consideration of Township of Watersmeet's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 11 and page 44, are not a required part of the basic financial statements but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Township of Watersmeet's basic financial statements. The accompanying Other Financial Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.


Roger J. Kolehmainen PC
Certified Public Accountant

Ironwood, Michigan
July 23, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS TOWNSHIP OF WATERSMEET

Year ended March 31, 2006

Management's Discussion and Analysis

This section of the Township of Watersmeet's (Township) annual financial report presents our discussion and analysis of the Township's financial performance during the year ended March 31, 2006. It is to be read in conjunction with the Township's financial statements, which immediately follow. This is a requirement of the Governmental Accounting Standards Board Statement No. 34 (GASB 34) *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Government* and is intended to provide the financial results for the fiscal year ending March 31, 2006.

Government-wide Financial Statements

The Government-wide financial statements appear first in the financial report. These financial statements include the statement of net assets and the statement of activities. They report information about the Township as a whole. The statements are prepared using the accrual basis of accounting which is the accounting used by most private sector businesses. The statement of net assets includes all of the Township's assets and liabilities except fiduciary funds. All current year revenues and expenses are reported in the statement of activities. These are new statements that have not been required or provided in past years but are now required based on government auditing and accounting standards. The two statements report the governmental activities of the Township that include all services performed by the Township. These activities are funded mostly by State revenue sharing, property taxes and charges for services.

The statement of net assets, as stated previously, shows the Township's assets and liabilities. The corresponding balance between the amounts calculates the net assets or deficit of the Township. This statement measures the financial strength of the Township; the greater the net asset figure, the healthier the Township generally is. This shows if the Township will be able to fund their current obligations and shows what they have available for future use.

The statement of activities shows the current year change in net assets on revenue less expense basis. It generally shows the operating results for a given year of the Township. Any excess of revenues over expenditures results in a surplus for the year that in turn increases the net assets (or reduces a deficit) available to fund future needs of the Township. Any deficiency of revenues over expenditures results in a deficit for the year that in turn reduces the net assets (or increases a deficit) of the Township.

MANAGEMENT'S DISCUSSION AND ANALYSIS TOWNSHIP OF WATERSMEET

Fund Financial Statements

The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. In the basic financial statements, the emphasis of the fund financial statements is on major funds. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating the Township's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. In order to provide the reader with information to better understand the long-term impact of the government's near-term financing decisions, a reconciliation between the government-wide financial statements is included as part of the basic financial statements.

The Township maintains one governmental fund, which is the general fund. The Township adopts an annual budget for the general fund. To demonstrate compliance with their adopted budget, a comparison has been provided under the "Other Financial Information" section of this report.

The Township adopts an annual budget for its general fund. To demonstrate compliance with this budget, a budgetary comparison statement has been provided for the general fund and is included in the "Required Supplemental Information" section of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS TOWNSHIP OF WATERSMEET

Proprietary Funds

Proprietary Funds provide services for which the Township charges customers a fee. The Township has two proprietary fund types- enterprise funds. The enterprise funds of the Township are used to report the same functions as the business-type activities in the government-wide financial statements. The Water and Sewer Funds is presented in both the government-wide financial statements and the fund financial statements and is considered a major fund. Enterprise funds are used to account for operations very similar to business enterprises, where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefits of parties outside the government. The fiduciary fund for the Township is the Tax Collection Fund. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. This fund is presented separately in the fund financial statements section of the basic financial statements.

Notes to Financial Statements

Notes to the financial statements are included in the financial statements, and provide additional information that is essential for a full understanding of the data provide in the government-wide and the fund financial statements.

Government-wide Financial Statements-Condensed Financial Information

Statement of Net Assets

The following is a condensed statement of net assets with a detailed analysis of the statement below as of March 31, 2006 and 2005.

| | | <u>March 31, 2006</u> | |
|----------------------|--------------------|-----------------------|--------------------|
| | Governmental | Business-Type | Total |
| ASSETS | <u>Activities</u> | <u>Activities</u> | |
| Current Assets: | | | |
| Cash and equivalents | \$556,857 | \$119,912 | \$676,769 |
| Other assets | 69,008 | 73,679 | 142,687 |
| Non-current Assets | | | |
| Restricted cash | | 51,323 | 51,323 |
| Capital Assets, net | 912,973 | 989,170 | 1,902,143 |
| TOTAL ASSETS | \$1,538,838 | \$1,234,084 | \$2,772,922 |

MANAGEMENT'S DISCUSSION AND ANALYSIS
TOWNSHIP OF WATERSMEET

March 31, 2006

| | Governmental <u>Activities</u> | Business-Type <u>Activities</u> | <u>Total</u> |
|---|-----------------------------------|------------------------------------|--------------|
| LIABILITIES | | | |
| Current Liabilities | \$157,118 | \$12,261 | \$169,379 |
| Non-current Liabilities | 98,865 | 288,000 | 386,865 |
| TOTAL LIABILITIES | 255,983 | 300,261 | 556,244 |
| NET ASSETS | | | |
| Investment in capital assets net of related debt | 816,002 | 695,170 | 1,511,172 |
| Restricted | | 51,323 | 51,323 |
| Unrestricted | 466,853 | 187,330 | 654,183 |
| TOTAL NET ASSETS | 1,282,855 | 933,823 | 2,216,678 |
| TOTAL LIABILITIES AND NET ASSETS | \$1,538,838 | \$1,234,084 | \$2,772,922 |

For governmental activities, net assets increased by \$179,982 during the fiscal year. For business-type activities, net assets increased by \$19,214 during the year.

March 31, 2005

| | Governmental <u>Activities</u> | Business-Type <u>Activities</u> | <u>Total</u> |
|---|-----------------------------------|------------------------------------|--------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and equivalents | \$113,732 | \$135,922 | \$249,654 |
| Other assets | 419,955 | 19,101 | 439,056 |
| Non-current Assets | | | |
| Restricted cash | | 43,444 | 43,444 |
| Capital Assets, net | 825,131 | 1,019,424 | 1,844,555 |
| TOTAL ASSETS | \$1,358,818 | \$1,217,891 | \$2,576,709 |
| LIABILITIES | | | |
| Current Liabilities | \$139,947 | \$9,282 | \$149,229 |
| Non-current Liabilities | 115,998 | 294,000 | 409,998 |
| TOTAL LIABILITIES | 255,945 | 303,282 | 559,227 |
| NET ASSETS | | | |
| Investment in capital assets net of related debt | 715,624 | 719,424 | 1,435,048 |
| Restricted | | 43,444 | 43,444 |
| Unrestricted | 387,249 | 151,741 | 538,990 |
| TOTAL NET ASSETS | 1,102,873 | 914,609 | 2,017,482 |
| TOTAL LIABILITIES AND NET ASSETS | \$1,358,818 | \$1,217,891 | \$2,576,709 |

MANAGEMENT'S DISCUSSION AND ANALYSIS
TOWNSHIP OF WATERSMEET

Statement of Activities

The results of operations for Watersmeet Township as a whole are reported in the statement of activities. This statement reports the changes in net assets for both governmental and business-type activities. The following is a condensed statement of activities for the years ended March 31, 2006 and 2005.

| | Governmental | March 31, 2006 Business-Type | Total |
|-----------------------------------|--------------------|---------------------------------|--------------------|
| | <u>Activities</u> | <u>Activities</u> | |
| REVENUES | | | |
| Program Revenues: | | | |
| Charges for services | \$36,105 | \$130,453 | \$166,558 |
| Operating grants/contributions | 222,333 | 59,500 | 281,833 |
| General Revenue: | | | |
| Property taxes | 534,049 | | 534,049 |
| State and federal grants | 179,437 | | 179,437 |
| Other | 21,442 | 2,250 | 23,692 |
| Total Revenue | <u>\$993,366</u> | <u>\$192,203</u> | <u>\$1,185,569</u> |
| EXPENSES: | | | |
| Program Expenses: | | | |
| Governmental activities | \$813,384 | | \$813,384 |
| Business-type activities | | \$172,989 | 172,989 |
| Total Expenses | <u>\$813,384</u> | <u>\$172,989</u> | <u>\$986,373</u> |
| Increase (Decrease) in Net Assets | \$179,982 | \$19,214 | \$199,196 |
| Net Assets, Beginning of Year | <u>1,102,873</u> | <u>914,609</u> | <u>2,017,482</u> |
| Net Assets, End of Year | <u>\$1,282,855</u> | <u>\$933,823</u> | <u>\$2,216,678</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS
TOWNSHIP OF WATERSMEET

| | | <u>March 31, 2005</u> | |
|-----------------------------------|---------------------|-----------------------|--------------------|
| | <u>Governmental</u> | <u>Business-Type</u> | <u>Total</u> |
| REVENUES | <u>Activities</u> | <u>Activities</u> | |
| Program Revenue: | | | |
| Charges for services | \$56,756 | \$113,100 | \$169,856 |
| Operating grants/contributions | 179,020 | | 179,020 |
| General Revenue: | | | |
| Property taxes | 414,524 | | 414,524 |
| State and federal grants | 137,698 | 19,980 | 157,678 |
| Other | 3,560 | 723 | 4,283 |
| Transfers from other funds | | | |
| Total Revenue | <u>\$791,558</u> | <u>\$133,803</u> | <u>\$925,361</u> |
| Program Expenses: | | | |
| Governmental activities | \$707,021 | | \$707,021 |
| Business-type activities | | \$169,300 | 169,300 |
| Total Expenses | <u>\$707,021</u> | <u>\$169,300</u> | <u>\$876,321</u> |
| Increase (Decrease) in Net Assets | \$84,537 | (\$35,497) | \$49,040 |
| Net Assets, Beginning of Year | 1,018,336 | 950,106 | 1,968,442 |
| Net Assets, End of Year | <u>\$1,282,855</u> | <u>\$914,</u> | <u>\$2,017,482</u> |

Governmental Activities

Property taxes and other tax revenues comprise \$534,049 or approximately 54 percent of total governmental revenues, whereas, gaming revenues and donations amounted to \$222,333 (22%). The Township also collected \$36,105 for services provided. Also the Township reported \$179,437 (18%) in state and federal grant revenues.

The Township expended \$707,021 on governmental programs and services

MANAGEMENT'S DISCUSSION AND ANALYSIS TOWNSHIP OF WATERSMEET

Business-Type Activities

Business-type activities increased the Township's net assets by \$19,214. Charges for services for water and sewer activities for the year were \$130,453 and expenditures amounted to \$172,989. Additional revenues of interest income and capital contributions of \$2,250 and \$52,000, respectively, were received to offset the reported expenditures.

Financial Analysis of Governmental Funds

As previously noted, the Township uses fund accounting to ensure and demonstrate compliance with finance-related requirement.

Governmental Funds

The focus of the Township's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. This information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year. The Township's general fund balance sheet reported an unreserved fund balances of \$476,034, which is available for spending at the government's discretion.

Proprietary Fund

The Township's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Funds as of March 31, 2006 were \$58,378 and \$128,952 respectively.

Capital Assets and Debt Administration

The Township's investment in capital assets, net of accumulated depreciation for its governmental and business-type activities as of March 31, 2006 was \$1,953,466.

Major capital expenditures for governmental funds were for Township's infrastructure right of way improvements on County Roads, which required a local match of \$117,667; and office equipment purchases of \$16,993; and building improvements of \$9,681. The Business-type funds noted a pump replacement of \$7,367 and preliminary engineering fees of \$11,419 in pursuing financing for water system improvements.

MANAGEMENT'S DISCUSSION AND ANALYSIS TOWNSHIP OF WATERSMEET

The Township had \$400,152 of long-term liabilities at March 31, 2006. This amount consists of \$294,000 in revenue bond payable as described in Note to the financial statements, a note payable of \$96,971 and accrued sick leave accumulation of \$9,181.

Other Economic Factors and Next Years Budget

Economic Factors

Currently, the State of Michigan is experiencing a severe budgetary crisis. As such, it is anticipated that future state cuts will likely translate into strategic reductions of Township expenses to maintain a sound budget. Despite the poor outlook of the state's budget, the Township will continue to strive to provide good social and cultural conditions that support healthy families and maintain a safe and clean community in which to live.

Request for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Township Supervisor
Township of Watersmeet
PO Box 306
Watersmeet, MI 49969

TOWNSHIP OF WATERSMEET
STATEMENT OF NET ASSETS
March 31, 2006

| | <u>Governmental Activities</u> | <u>Business – type Activities</u> | <u>Totals</u> |
|---|------------------------------------|---------------------------------------|--------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$556,857 | \$119,912 | \$676,769 |
| Accounts receivable-net | 25,599 | 20,477 | 46,076 |
| Delinquent taxes receivable | 35,096 | | 35,096 |
| Due from other funds | | 51,589 | 51,589 |
| Deferred charges | 8,313 | 1,613 | 9,926 |
| TOTAL CURRENT ASSETS | \$625,865 | \$193,591 | \$819,456 |
| NON-CURRENT ASSETS | | | |
| Restricted cash | | 51,323 | 51,323 |
| Capital assets | 1,344,197 | 2,002,577 | 3,346,774 |
| Accumulated depreciation | (431,224) | (1,013,407) | (1,444,631) |
| TOTAL NON-CURRENT ASSETS | 912,973 | 1,040,493 | 1,953,466 |
| TOTAL ASSETS | \$1,538,838 | \$1,234,084 | \$2,772,922 |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts payable | \$28,065 | \$3,675 | \$31,740 |
| Accrued wages/leave benefits | 7,287 | | 7,287 |
| Advance collections | | 1,055 | 1,055 |
| Accrued interest payable | | 1,531 | 1,531 |
| Due to other funds | 60,329 | | 60,329 |
| Deferred revenues | 54,150 | | 54,150 |
| Current maturity on long-term debt | 7,287 | 6,000 | 13,287 |
| TOTAL CURRENT LIABILITIES | \$157,118 | \$12,261 | \$169,379 |
| NON-CURRENT LIABILITIES | | | |
| Note payable | 96,971 | | 96,971 |
| Bonds payable | | 294,000 | 294,000 |
| Accrued compensated absences | 9,181 | | 9,181 |
| Current maturity on long-term debt | (7,287) | (6,000) | (13,287) |
| TOTAL NON-CURRENT LIABILITIES | 98,865 | 288,000 | 338,865 |
| TOTAL LIABILITIES | \$255,983 | \$300,261 | \$556,244 |
| NET ASSETS | | | |
| Investment in capital assets, net of related debt | \$816,002 | \$695,170 | \$1,511,172 |
| Reserved | | 51,323 | 51,323 |
| Unreserved | 466,853 | 187,330 | 654,183 |
| TOTAL NET ASSETS | \$1,282,855 | \$933,823 | \$2,216,678 |
| TOTAL LIABILITIES AND NET ASSETS | \$1,538,838 | \$1,234,084 | \$2,772,922 |

The accompanying notes are an integral part of the financial statements.

TOWNSHIP OF WATERSMEET
STATEMENT OF ACTIVITIES
Year Ended March 31, 2006

| Functions/Programs | <u>Expenses</u> | <u>Program Revenues</u> | Net (Expense) Revenue |
|----------------------------------|------------------|-----------------------------|--------------------------|
| Governmental Activities | | | |
| General government | \$300,991 | \$68,684 | (\$232,307)) |
| Public safety | 197,693 | 41,883 | (155,810) |
| Public works | 224,544 | 24,222 | (200,322) |
| Recreation and culture | 20,192 | | (20,192) |
| Other | 69,964 | | (69,964) |
| Total Governmental Activities | <u>\$813,384</u> | <u>\$134,789</u> | <u>(\$678,595)</u> |
| Business-type Activities | | | |
| Water | \$56,419 | \$52,675 | (3,744) |
| Sewer | 116,570 | 77,778 | (38,792) |
| Total Business – type Activities | <u>\$172,989</u> | <u>\$130,453</u> | <u>(\$42,536)</u> |
| Total | <u>\$735,894</u> | <u>\$345,618</u> | <u>(\$721,131)</u> |

Changes in Net Assets

| | <u>Governmental Activities</u> | <u>Business – type Activities</u> | <u>Total</u> |
|-----------------------------------|------------------------------------|---------------------------------------|--------------------|
| Net (Expense) Revenue | (\$678,595) | (\$42,536) | (\$721,131) |
| General Revenues: | | | |
| Property taxes | 469,128 | | 469,128 |
| State and Federal shared revenues | 169,437 | 7,500 | 176,937 |
| Investment income | 6,835 | 2,250 | 9,085 |
| Capital contributions | 202,333 | 52,000 | 254,333 |
| Other income | 10,844 | | 10,844 |
| Total General Revenues | <u>\$858,577</u> | <u>\$61,750</u> | <u>\$920,327</u> |
| Changes in Net Assets | \$179,982 | \$19,214 | \$199,196 |
| Net Assets at Beginning of Year | 1,102,873 | 914,609 | 2,017,482 |
| Net Assets at End of Year | <u>\$1,282,855</u> | <u>\$933,823</u> | <u>\$2,216,678</u> |

The accompanying notes are an integral part of the financial statements.

TOWNSHIP OF WATERSMEET
BALANCE SHEET
GENERAL FUND
March 31, 2006

ASSETS

| | |
|-----------------------------|------------------|
| Cash and cash equivalents | \$556,857 |
| Accounts receivable-net | 25,599 |
| Delinquent taxes receivable | 35,096 |
| Deferred charges | 8,313 |
| TOTAL ASSETS | <u>\$625,865</u> |

LIABILITIES

| | |
|------------------------------|------------------|
| Current Liabilities | |
| Accounts payable | \$28,065 |
| Accrued wages/leave benefits | 7,287 |
| Due to other funds | 60,329 |
| Deferred revenues | 54,150 |
| TOTAL LIABILITIES | <u>\$149,831</u> |

FUND EQUITY

| | |
|-------------------------------------|------------------|
| Unreserved | 476,034 |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$625,865</u> |

The accompanying notes are an integral part of the financial statements.

RECONCILIATION OF THE GENERAL FUND BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS

TOWNSHIP OF WATERSMEET
March 31, 2006

| | |
|--|-----------|
| Total fund equity of governmental activities | \$476,034 |
|--|-----------|

Amounts reported for governmental activities in the statement
of Net Assets are different because:

Additions:

Capital assets used in governmental activities are not financial
Resources and therefore are not reported as assets in
Governmental funds.

| | | |
|--------------------------|-----------|---------|
| Cost of capital assets | 1,344,197 | |
| Accumulated depreciation | (431,224) | 912,973 |

Reductions:

Long-term liabilities are not due and payable in the current
Period and therefore not reported as liabilities in the funds.

| | | |
|----------------------|----------|-----------|
| Note payable | (96,971) | |
| Accumulated absences | (9,181) | (106,152) |

| | |
|---|-------------|
| Total net assets of governmental activities | \$1,282,855 |
|---|-------------|

The accompanying notes are an integral part of the financial statements.

TOWNSHIP OF WATERSMEET
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GENERAL FUND
Year ended March 31, 2006

| | |
|--|-------------------------|
| REVENUES: | \$534,049 |
| Taxes | 31,883 |
| Licenses and permits | 3,763 |
| Rentals | 42,496 |
| Federal shared revenues | 136,941 |
| State shared revenues | 219,278 |
| Class III gaming revenues | 4,222 |
| Charges for services | 6,835 |
| Interest | 13,899 |
| Other revenue | <u>\$993,366</u> |
| EXPENDITURES | \$58,695 |
| Legislative | 232,326 |
| General government | 164,822 |
| Public safety | 213,514 |
| Public works | 19,127 |
| Recreation and culture | 60,783 |
| Other | 144,341 |
| Capital outlay | 17,464 |
| Debt service | <u>\$911,072</u> |
| EXCESS OF REVENUES (EXPENDITURES) | 82,294 |
| OTHER FINANCING SOURCES (USES) | |
| Transfers to/from other funds | <u>\$82,294</u> |
| EXCESS OF REVENUES EXPENDITURES) AND OTHER FINANCING USES | 393,740 |
| Fund Balance at 3/31/2005 | <u>\$476,034</u> |
| FUND BALANCE MARCH 31, 2006 | <u>\$476,034</u> |

The accompanying notes are an integral part of the financial statements

TOWNSHIP OF WATERSMEET
RECONCILIATION OF THE GENERAL FUND STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
WITH THE STATEMENT OF ACTIVITIES

March 31, 2006

| | |
|--|----------|
| Net change in fund balances – Total Governmental Funds | \$82,294 |
|--|----------|

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures while
governmental activities report depreciation expense to allocate those
expenditures over the life of the assets:

| | |
|-------------------------------------|----------|
| Capital asset purchases capitalized | 144,341 |
| Depreciation expense | (56,499) |

Some expenses reported in the Statement of Activities such as compensated
absences do not require the use of current financial resources and therefore
are not reported as expenditures in governmental funds:

| | |
|---|------------------|
| Repayment of bond principal | 12,536 |
| Compensated absences earned not paid | (2,690) |
| Change in Net Assets of Governmental Activities | <u>\$179,982</u> |

The accompanying notes are an integral part of the financial statements

TOWNSHIP OF WATERSMEET
STATEMENT OF NET ASSETS-PROPRIETARY FUNDS
March 31, 2006

| | Business type Activities- Enterprise Funds | | |
|---|---|---------------------|----------------------|
| | <u>Water</u> | <u>Sewer</u> | <u>Totals</u> |
| | <u>Fund</u> | <u>Funds</u> | |
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | \$28,994 | \$90,918 | \$119,912 |
| Accounts receivable-net | 6,580 | 13,897 | 20,477 |
| Due from other funds | 25,128 | 26,461 | 51,589 |
| Deferred charges | 896 | 717 | 1,613 |
| Total Current Assets | 61,598 | 131,993 | 193,591 |
| RESTRICTED ASSETS: | | | |
| Cash | 12,166 | 39,157 | 51,323 |
| Total Restricted Assets | 12,166 | 39,157 | 51,323 |
| NONCURRENT ASSETS: | | | |
| Property, plant and equipment | 508,642 | 1,493,935 | 2,002,577 |
| Accumulated depreciation | (289,620) | (723,787) | (1,013,407) |
| Total Non-Current Assets | 219,022 | 770,148 | 989,170 |
| TOTAL ASSETS | \$292,786 | \$941,298 | \$1,234,084 |
| LIABILITIES AND NET ASSETS | | | |
| CURRENT LIABILITIES: | | | |
| Accounts payable | \$2,271 | \$1,404 | \$3,675 |
| Advance collections | 949 | 106 | 1,055 |
| Accrued interest payable | | 1,531 | 1,531 |
| Current maturity on long-term debt | | 6,000 | 6,000 |
| Total Current Liabilities | 3,220 | 9,041 | 12,261 |
| LONG TERM LIABILITIES | | | |
| Revenue bonds payable | | 294,000 | 294,000 |
| Less current maturity on long-term debt | | (6,000) | (6,000) |
| Total Long-term Liabilities | | 288,000 | 288,000 |
| TOTAL LIABILITIES | 3,220 | 297,041 | 300,261 |
| NET ASSETS: | | | |
| Investment in capital assets, net of related debt | 219,022 | 476,148 | 695,170 |
| Reserved | 12,166 | 39,157 | 51,323 |
| Unreserved | 58,378 | 128,952 | 187,330 |
| TOTAL NET ASSETS | 289,566 | 644,257 | 933,823 |
| TOTAL LIABILITIES AND NET ASSETS | \$292,786 | \$941,298 | \$1,234,084 |

The accompanying notes are an integral part of the financial statements.

TOWNSHIP OF WATERSMEET
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN
NET ASSETS - PROPRIETARY FUNDS TYPE
Year ended March 31, 2006

| | <u>Water Fund</u> | <u>Sewer Funds</u> | <u>Total</u> |
|--|-----------------------|------------------------|------------------|
| Operating revenues: | | | |
| Charges for services | \$51,475 | \$77,778 | \$129,253 |
| Other revenues | 1,200 | | 1,200 |
| Total Operating Revenues | 52,675 | 77,778 | 130,453 |
| Operating expenses: | | | |
| Personnel services | 12,673 | 31,980 | 44,653 |
| Purchase of services | 22,888 | 18,365 | 41,253 |
| Materials and supplies | 8,901 | 10,145 | 19,046 |
| Provision for depreciation | 11,957 | 37,082 | 49,039 |
| Total Operating Expenses | 56,419 | 97,572 | 153,991 |
| Operating income (loss) | (3,744) | (19,794) | (23,538) |
| Non-operating revenues (expenses) | | | |
| Interest income | 1,157 | 1,093 | 2,250 |
| State grant proceeds | 7,500 | | 7,500 |
| Debt service – interest and fees | | (18,998) | (18,998) |
| | 8,657 | (17,905) | (9,248) |
| Capital contributions | 26,000 | 26,000 | 52,000 |
| Change in Net Assets | 30,913 | (11,699) | 19,214 |
| Net Assets - March 31, 2005 | 258,653 | 655,956 | 914,609 |
| NET ASSETS – MARCH 31, 2006 | \$289,566 | \$644,257 | \$933,823 |

The accompanying notes are an integral part of the financial statements.

**TOWNSHIP OF WATERSMEET
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS TYPES
Year ended March 31, 2006**

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Totals</u> |
|--|------------------------------|------------------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Receipts from customers | \$52,296 | \$75,581 | \$127,877 |
| Hydrant rental | 1,200 | | 1,200 |
| Payments to employees and suppliers for goods and services | (68,915) | (86,259) | (155,174) |
| Net Cash Provided (Used) by Operating Activities | (15,419) | (10,678) | (26,097) |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | |
| Capital grants received | 33,500 | 26,000 | 59,500 |
| Purchase of capital assets | (11,419) | (7,367) | (18,786) |
| Principal paid on bonds payable | | (6,000) | (6,000) |
| Interest paid on bonds payable | | (18,998) | (18,998) |
| Net Cash Provided (Used) for Capital and Related Financing Activities | 22,081 | (6,365) | 15,716 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Interest received on investments | 1,157 | 1,093 | 2,250 |
| Net Cash Provided (Used) by Investing Activities | 1,157 | 1,093 | 2,250 |
| Net Increase (Decrease) in Cash | 7,819 | (15,950) | (8,131) |
| Cash and Cash Equivalents, March 31, 2005 | 33,341 | 146,025 | 179,366 |
| CASH AND CASH EQUIVALENTS, March 31, 2006 | \$41,160 | \$130,075 | \$171,235 |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | | |
| Operating income (loss) | (\$3,744) | (\$19,794) | (\$23,538) |
| Adjustments to reconcile income (loss) to net cash provided (used) by operating activities: | | | |
| Depreciation/amortization | 11,957 | 37,082 | 49,039 |
| Change in assets and liabilities: | | | |
| Accounts receivable | 821 | (2,197) | (1,376) |
| Due from other funds | (25,128) | (26,461) | (51,589) |
| Deferred charges | (896) | (717) | (1,613) |
| Accounts payable | 2,271 | 1,404 | 3,675 |
| Advance collections | (700) | 82 | (618) |
| Accrued interest payable | | (77) | (77) |
| Net Cash Provided by Operating Activities | (\$15,419) | (\$10,678) | (\$26,097) |
| Noncash investing, capital and financing activities: None | | | |
| The accompanying notes are an integral part of the financial statements | | | |

TOWNSHIP OF WATERSMEET
FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS
Year ended March 31, 2006

ASSETS

Cash and cash equivalents
Due from other funds

| | |
|--------------|---------|
| | \$934 |
| | 8,740 |
| TOTAL ASSETS | \$9,674 |

LIABILITIES

Due to other funds
Due to others

| | |
|-------------------|---------|
| | \$ |
| | 9,674 |
| TOTAL LIABILITIES | \$9,674 |

The accompanying notes are an integral part of the financial statements

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Statement

The Township of Watersmeet operates under an elected Board of Trustees, which includes a supervisor, clerk and treasurer. The Township provides to its residents, services in many areas including public safety, highways and streets, sanitation, culture and recreation, planning and zoning, and general administrative services.

The Township complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds. Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the Township the option of electing to apply FASB pronouncements issued after November 30, 1989. The Township has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

Reporting Entity

In conformity with generally accepted accounting principles, other autonomously operated governmental organizations are not considered to be part of the Township financial-reporting entity. The criteria established for determining the various governmental organizations to be included as component units in the Township's financial statements include oversight responsibility, scope of public service and special financing relationships.

On this basis, the financial statements of the local school district and volunteer fire association are not included as component units in the financial statements of the Township. Educational services are provided to citizens through the local school district, which is a separate governmental entity. The Watersmeet Township Volunteer Firefighters' Association is organized as a separate nonprofit entity.

Basis of Presentation

The Statement of Net Assets and Statement of Activities display information about the reporting as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is place on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Township or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds in that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

General Fund - is the primary operating fund of the Township and always classified as a major fund. This fund is used to account for all financial resources except those legally or administratively required to be accounted for in another fund. There are no nonmajor funds.

Proprietary Fund Types

Enterprise Funds – Water Supply and Sewage Disposal System Funds are used to account for operations of the water and the sewage systems in a manner similar to private business enterprises, where the intent of the Township is that the expenses, including depreciation, of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

Fiduciary Fund Type (Not included in government-wide statements)

Agency Funds – The Tax Collection Fund is used to account for assets held by the Township in a trustee capacity or as an agent for other governments and/or other funds. This fund is custodial in nature and does not involve measurement of results of operations.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

MAJOR AND NONMAJOR FUNDS

The governmental and enterprise funds of the Township are classified as major funds as follows:

| <u>Fund</u> | <u>Brief Description</u> |
|--------------------|--|
| <u>MAJOR FUNDS</u> | |
| 1. General | See above for description. |
| 2. Water | Account for revenues and expenses of providing Water services to the public. |
| 3. Sewer | Account for revenues and expenses of providing Sewer services to the public. |

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end except for State Shared Revenues collected after sixty days which are earmarked for the period under audit. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic assets used.

ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

For the purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand, savings accounts, and certificates of deposits of the Township. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. See Note G for details of interfund transactions, including receivables and payable at year-end.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales and use taxes and refunds. Business-type activities report utilities earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include service revenue accruals since they are usually both measurable and available. Interest and investment earnings are recorded when accrued. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable compose the majority of proprietary fund receivables. No allowances for uncollectible accounts receivable are recognized since any delinquencies can be placed upon the tax roll.

Inventories

Inventories of Governmental Fund and Proprietary Fund types are considered to be immaterial and are not recognized. All purchases of supplies are expensed upon purchase.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Fixed Assets

The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets are defined by the government as assets with initial individual costs of \$9,000 and \$1,000 for capital betterments and equipment additions. All fixed assets are valued at historical costs or estimated cost, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Capital assets for proprietary funds are recognized on assets costing over \$250 and with a useful life of over three years. Infrastructure improvements have been capitalized as of April 1, 2004 when such capital improvements exceeded \$5,000.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets for governmental funds. Depreciation has been provided over the useful lives using the straight-line method of depreciation. The estimated useful lives for each major class of depreciable fixed assets are as follows:

| | |
|-------------------------------|-----------------|
| Land | Not depreciated |
| Buildings and improvements | 25-50 Years |
| Utility Systems | 40 Years |
| Office furniture and fixtures | 5-10 Years |
| Fire equipment | 20 Years |
| Other equipment | 10 Years |
| Infrastructure (ROW) | 20 Years |

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Reserved Assets

Reserved assets include cash and investments that are restricted as to their use. The primary restricted assets are related to cash accounts established to be used for capital projects and debt retirement.

Long-term Debt and Compensated Absences

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes payable to USDA Rural Development and accrued compensated absences. Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

Township employees covered by a union agreement are entitled to compensated annual, personal and sick pay based upon their length of employment. See Note K.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

- Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statement

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide statements.

Scope of Reporting Entity

In accordance with the provisions of the Governmental Accounting Board's Statement No. 14 "The Financial Reporting Entity," the general purpose financial statements of the Township contain all the Township funds and component units that are controlled by or dependent on the Township's executive or legislative branches.

Property Taxes

Property taxes attach as an enforceable lien on property as of December 31. Taxes are levied on the ensuing December 1. The Township bills and collects its own property taxes and also collects current rolls for the County and School District. The Township records delinquent real property taxes as revenue upon levy; since the County will sell tax notes and remits monies to the various units of government shortly after year end.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Budgets

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to April 1, the proposed budget for each budgetary fund is submitted to the Township Board for consideration. The operating budget includes proposed expenditures and the means of financing them.
 2. A public hearing is held at the annual Township Board meeting to obtain taxpayers comments.
 3. Public hearings are held to obtain taxpayer comments.
 4. The budgets are adopted prior to the fiscal year by the majority vote of the Township Board.
 5. The budgets are adopted on the modified accrual basis of accounting.
 6. Any revisions to the budgeted amounts must be approved by a majority vote of the Township Board.
 7. Budget appropriations lapse at the end of each fiscal year.
 8. Budgeted amounts presented in the financial statements are as originally adopted and amended by the Township Board.
- Budgets are not required for the operations of the Proprietary Fund types.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the Proprietary Fund Type consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Interest Expense

Interest on bonded indebtedness is recorded as expenditure as accrued.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Interest Receivables

Interest on investments is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

Due to and Due from Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods, and/or services. It also includes are revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In government-wide financial statements, expenses are classified by function for governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

| | |
|------------------------------------|--|
| Governmental Funds – By Character: | Current (further classified by function) |
| | Debt Service |
| | Capital Outlay |

Proprietary Fund – By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE B - CASH

Statutes authorize the Township to deposit cash in financial institutions covered by federal depository insurance and to invest in obligations of the United States Treasury, agencies and instrumentalities; commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services: United States government or agency obligation repurchases agreements; bankers' acceptances of United States banks; certain mutual funds and certain common stocks. All accounts are in the name of the Township.. They are recorded in the Township records at cost. Interest is recorded when the interest is accrued.

Following is a summary of the carrying amount of cash at March 31, 2006:

| | |
|---|------------------|
| Cash deposited in banks insured by federal depository insurance | \$100,000 |
| Cash on hand | 150 |
| Funds in excess of insurance limits | 656,297 |
| Less outstanding items | <u>(27,472)</u> |
| Total | <u>\$728,975</u> |

The restricted assets consist of cash accounts restricted as follows:

| | |
|-----------------------------|-----------------|
| Sewer Disposal System Fund: | |
| Bond Reserve Account | \$37,099 |
| Replacement Fund | 2,058 |
| | <u>\$39,157</u> |
| Water Utility Fund: | |
| Capital Reserve Account | 12,166 |
| | <u>\$51,323</u> |
| Totals | |

NOTE C - RECEIVABLES

Accounts receivable and related allowances for uncollectible are as follows:

| <u>Fund</u> | <u>Receivable</u> | <u>Allowance</u> | <u>Net</u> |
|--------------|-------------------|------------------|------------|
| General Fund | \$57,695 | \$ | \$57,695 |
| Water Fund | \$6,580 | \$ | \$6,580 |
| Sewer Fund | \$13,897 | \$ | \$13,897 |

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

General Fund - generally consists of delinquent tax monies and administrative fees; state shared revenues; and refunds.

Proprietary Funds - customer unpaid balances. Trade accounts receivable were comprised of the following at March 31, 2006.

| | |
|---|-----------------|
| Customer billing for the month ended March 2006 | \$2,902 |
| Delinquent billings | 10,995 |
| Total | <u>\$13,897</u> |

Delinquent account balances are placed on tax rolls and can be a lien against real property. Receivables are considered to be fully collectible and accordingly, there is no allowance for doubtful accounts.

NOTE D - SUMMARY OF TAX ROLL

Following is a summary of the 2005 property tax roll:

| | <u>Levy</u> | <u>Taxes Returned Delinquent</u> | <u>Net Collected</u> |
|----------------------------------|--------------------|--|--------------------------|
| Real/Personal Property taxes: | | | |
| County | \$1,313,697 | \$98,193 | \$1,215,504 |
| School | 2,113,956 | 128,351 | 1,985,605 |
| Township | 411,856 | 32,283 | 379,573 |
| CFR | 4,975 | 562 | 4,413 |
| Intermediate School District | 401,750 | 24,409 | 377,341 |
| State Education Tax | 719,982 | 43,558 | 676,424 |
| Totals: | <u>\$4,966,216</u> | <u>\$327,356</u> | <u>\$4,638,860</u> |
| Taxable valuation: | | | |
| Homestead | | | \$29,795,810 |
| Non-homestead | | | 90,282,574 |
| | | | <u>\$120,078,384</u> |

One taxpayer accounts for approximately 20 percent of the assessed valuation and tax levy of the Township.

Costs incurred for administrative costs in assessing and collecting property taxes have not been evaluated in ensuring that fees charged other taxing units are reasonable.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE E - DELINQUENT TAX RECEIVABLE

The County of Gogebic purchases the delinquent real property taxes of the Township for the 2005 levied. The County intends to sell tax notes, the proceeds of which will be used to pay the Township for these delinquent taxes shortly after yearend. The delinquent real property taxes are recorded as current year tax revenues.

NOTE F - PUBLIC ACT 275 OF 1980 DISCLOSURE

The Township had no deficits in any funds as of March 31, 2006, which would require specific disclosure.

NOTE G - INTERFUND RECEIVABLES AND PAYABLE

The amounts of interfund receivables and payable at March 31, 2006, are as follows:

| <u>Funds</u> | <u>Interfund Receivable</u> | <u>Funds</u> | <u>Interfund Payable</u> |
|--------------|---------------------------------|---------------|------------------------------|
| Water Fund- | | General Fund- | |
| General Fund | \$25,128 | Water Fund | \$25,128 |
| Sewer Fund | | Sewer Fund | 26,461 |
| General Fund | 26,461 | Tax Fund | 8,740 |
| Tax Fund | | | |
| General Fund | 8,740 | | |
| Totals | <u>\$60,329</u> | Totals | <u>\$60,329</u> |

NOTE H - CAPITAL ASSETS

A summary of changes in general fixed assets follow:

| Governmental Activities | <u>Balance at March 31, 2005</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance at March 31, 2006</u> |
|----------------------------------|--------------------------------------|------------------|------------------|--------------------------------------|
| Capital Assets not Depreciated | \$11,883 | \$ | \$ | \$11,883 |
| Land | | | | |
| Capital Assets being Depreciated | | | | |
| Buildings and improvements | 566,703 | 9,681 | | 576,384 |
| Fire equipment | 406,758 | | | 406,758 |
| Office furniture and fixtures | 28,423 | | | 28,423 |
| Office equipment | 69,217 | 16,993 | | 86,210 |
| Infrastructure-roads | 116,872 | 117,667 | | 234,539 |
| Subtotals | \$1,187,973 | \$144,341 | \$ | \$1,332,314 |
| Less Accumulated Depreciation | (374,725) | (56,499) | | (431,224) |
| Net Capital Assets Being | \$813,248 | \$87,842 | | \$901,090 |
| Depreciated | | | | |
| Net | <u>\$825,131</u> | <u>\$87,842</u> | <u>\$</u> | <u>\$912,973</u> |

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE I - ENTERPRISE FUNDS – CAPITAL ASSETS

A summary of proprietary fund type property, plant and equipment at March 31, 2006 follows:

| Business-Type Activities | Water Supply Fund: | | | Balance at |
|--------------------------------------|-------------------------------------|-----------|-----------|-----------------------|
| | Balance at <u>March 31, 2005</u> | Additions | Deletions | <u>March 31, 2006</u> |
| Capital Assets not Depreciated | | | | |
| Land and land rights | \$3,387 | \$ | \$ | \$3,387 |
| Capital Assets being Depreciated | | | | |
| Waterwells, houses and appurtenances | 88,551 | | | 88,551 |
| Water storage tank | 29,517 | | | 29,517 |
| Water Mains | 335,912 | | | 335,912 |
| Construction in progress | 39,856 | 11,419 | | 51,275 |
| Subtotals | \$493,836 | \$11,419 | \$ | \$505,255 |
| Less Accumulated Depreciation | (277,663) | (11,957) | | (289,620) |
| Net Capital Assets Being Depreciated | \$216,173 | (\$538) | | \$215,635 |
| Net | \$219,560 | (\$538) | \$ | \$219,022 |

Depreciation is computed using the straight-line method.

| Business-Type Activities | Sewage Disposal System Funds: | | | Balance at |
|----------------------------------|--------------------------------------|------------|-----------|-----------------------|
| | Balance at <u>March 31, 2005</u> | Additions | Deletions | <u>March 31, 2006</u> |
| Capital assets not depreciated | | | | |
| Land | \$800 | | | \$800 |
| Capital Assets being Depreciated | | | | |
| Sewer collection mains | 160,986 | \$ | \$ | \$160,986 |
| Waste water treatment facilities | 1,324,782 | 7,367 | | 1,332,149 |
| Subtotals | \$1,485,768 | \$ | \$ | \$1,493,135 |
| Less Accumulated Depreciation | (686,704) | (37,083) | | (723,787) |
| | \$799,064 | (\$29,716) | | \$769,348 |
| Net | \$799,864 | (\$29,716) | \$ | \$770,148 |

Depreciation is computed using the straight-line method.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE J - ACCOUNTS PAYABLE

The General Fund's accounts payable were for normal expenditures.

The Proprietary Fund account payable balances were for normal expenditures at year-end.

NOTE K - COMPENSATED ABSENCES

Employees are covered under a collective bargaining agreement. An employee shall be entitled to five days of vacation after 1 year of complete service. After three years of completed employment, the employee earns 10 vacation days. After five years of completed service, the employee shall be entitled to 15 days. After 15 years of service, the employee will receive 1 day per year, with a maximum of 20 days per year. Furthermore, each employee shall be entitled to 2 personal days per year. Four employees had earned \$7,287 in accrued benefits as of March 31, 2006 and are recognized in the General Fund as accrued wages/leave benefits. In addition, Township employees are entitled to compensate sick pay based upon length of employment. Compensated absences accumulate at 5 ½ hours for each month of service and are accrued when they are earned. Unused sick leave may be accumulated for a maximum of 45 days. If an employee has 10 years of more of service and retires, the employee will be paid at 100% of their prevailing rate of pay for all unused sick leave. Otherwise, no payment will be made for unused sick leave upon termination of employment. Four employees had earned \$9,181 in accrued sick benefits as of March 31, 2006 and are reflected in the Statement of Net Assets as accrued compensated absences.

NOTE L - LONG-TERM DEBT

A summary of the changes in long-term debt for the year ended March 31, 2006, is as follows:

| | Balance at March 31, 2005 | Additions | Reductions | Balance at March 31, 2006 |
|----------------------|------------------------------|----------------|-----------------|------------------------------|
| Notes payable | \$109,507 | \$ | \$12,536 | \$96,971 |
| Revenue bond payable | \$300,000 | | 6,000 | 294,000 |
| Compensated absences | 6,491 | 2,690 | | 9,181 |
| | <u>\$415,998</u> | <u>\$2,690</u> | <u>\$18,536</u> | <u>\$400,152</u> |

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Notes payable

On April 11, 2003, the Township borrowed \$140,000 from USDA Rural Development to finance the purchase of a fire truck. The note bears an interest rate of 4.5% and is being amortized over a 15-year period. During the year ended March 31, 2006, the Township paid principal payments in excess of the USDA payment schedule.

Debt service charges until maturity are:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|------------------|-----------------|------------------|
| 2007 | \$ | \$4,928 | \$4,928 |
| 2008 | | 4,928 | 4,928 |
| 2009 | | 4,770 | 4,770 |
| 2010 | 6,971 | 4,432 | 11,403 |
| 2011 | 9,500 | 4,050 | 13,550 |
| 2012 | 10,000 | 3,623 | 13,623 |
| 2013 | 10,000 | 3,172 | 13,172 |
| 2014 | 11,000 | 2,723 | 13,723 |
| 2015 | 12,000 | 2,228 | 14,228 |
| 2016 | 12,500 | 1,687 | 14,187 |
| 2017 | 12,500 | 1,125 | 13,625 |
| 2018 | 12,500 | 563 | 13,063 |
| | <u>\$96,971</u> | <u>\$38,229</u> | <u>\$135,200</u> |

Water Supply and Sewage Disposal System Junior Lien Revenue Bond

On March 1, 1988, the Township issued \$336,000 in Water Supply and Sewage Disposal System Junior Lien Revenue Bond to finance the cost of acquiring and constructing the sewage system. The bond consists of one single fully-registered nonconvertible bond of \$336,000 and was purchased by Rural Economic and Community Development (formerly Farmers Home Administration). The bond bear an interest rate of 6 1/8 % per annum, which is payable semi-annually on March 1 and September 1, and principal is payable each March 1 until maturity in the year 2028. Principal and interest are payable from the net revenues derived from operations of the sewage system.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

At March 31, 2006, the bond principal and interest payments were current. The principal balance outstanding of

| <u>Year ending March 31,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------------|------------------|-----------------|--------------|
| 2007 | \$6,000 | \$18,008 | \$24,008 |
| 2008 | 6,000 | 17,640 | 23,640 |
| 2009 | 7,000 | 17,273 | 24,273 |
| 2010 | 7,000 | 16,844 | 23,844 |
| 2011 | 8,000 | 16,415 | 24,415 |
| 2012 | 8,000 | 15,925 | 23,925 |
| 2013 | 9,000 | 15,435 | 24,435 |
| 2014 | 9,000 | 14,884 | 23,884 |
| 2015 | 10,000 | 14,333 | 24,333 |
| 2016 | 11,000 | 13,720 | 24,720 |
| 2017 | 12,000 | 13,046 | 25,046 |
| 2018 | 13,000 | 12,311 | 25,311 |
| 2019 | 14,000 | 11,515 | 25,515 |
| 2020 | 15,000 | 10,658 | 25,658 |
| 2021 | 16,000 | 9,739 | 25,739 |
| 2022 | 17,000 | 8,759 | 25,759 |
| 2023 | 18,000 | 7,718 | 25,718 |
| 2024 | 19,000 | 6,615 | 25,615 |
| 2025 | 20,000 | 5,451 | 25,451 |
| 2026 | 22,000 | 4,226 | 26,226 |
| 2027 | 22,000 | 2,879 | 24,879 |
| 2028 | 25,000 | 1,531 | 26,531 |
| Totals | \$294,000 | \$254,925 | \$548,925 |

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE M - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Township provides water and sewage services through four enterprise funds. Segment information as of March 31, 2006, follows:

| | <u>Water Supply Fund</u> | <u>Sewage System Fund</u> | <u>Totals</u> |
|--------------------------|--------------------------|---------------------------|---------------|
| Operating revenues | \$52,675 | \$77,778 | \$130,453 |
| Total operating expenses | \$44,462 | \$60,490 | |
| less depreciation | | | |
| Depreciation expense | \$11,957 | \$37,082 | \$49,039 |
| Operating income(loss) | \$3,756 | (\$19,794) | (\$16,038) |
| Operating transfers | | | |
| Non-operating income | \$1,157 | (\$17,905) | (\$16,748) |
| and expenses | | | |
| Capital contributions | \$26,000 | \$26,000 | \$52,000 |
| Increase (decrease) in | \$11,419 | \$7,367 | \$18,786 |
| capital assets | | | |
| Long term debt | | \$294,000 | \$294,000 |
| Unrestricted net assets | \$58,378 | \$128,952 | \$187,330 |

NOTE N – PENSION PLAN

All full-time employees and elected officials of the Township are eligible to be covered by a simplified employee pension plan administered by American Express Financial Advisors, Inc. The plan is a defined contribution plan covering all employees who are at least 18 years old and who have performed services for the Township in at least three of the immediately preceding five years. Certain employees of the Township have elected not to participate in the Plan.

The Township contributes ten percent of each employee's annual wages. Employees do not make contributions to the Plan. All participants are fully vested immediately.

The Township made contributions to the Plan of \$16,047 for the year ended March 31, 2006.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE O - RISK MANAGEMENT

The Township is exposed to various risks of losses related to torts; theft or, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township has obtained coverage from commercial insurance companies. The Township has comprehensive general liability coverage of \$3,000,000 per occurrence and a \$5,000,000 aggregate limit, with no deductible amount, and wrongful acts coverage with a \$4,000,000 aggregate limit, with no deductible amount.

All risk management activities are accounted for in the General Fund and Enterprise Funds of the Township. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Management estimates that the amount of actual or potential claims against the Township as of March 31, 2006, will not materially affect the financial condition of the Township. Therefore, the financial statements contain no provision for estimated claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE P - STATE CONSTRUCTION CODE ACT INFORMATION

During the year ended March 31, 2006, the Township collected construction code service fees of \$21,787 and spent \$23,127 for enforcing the code. Because the fee structure is not intended to recover the full cost of enforcement and the Township has the ability to track the full costs and revenues, a separate fund has not been created to account for these monies. In prior years, the Township spent more for enforcing the code than it collected in fees.

NOTE Q - TAX TRIBUNAL AND PROPERTY USE CASES

The Township has cases pending before the Michigan Tax Tribunal for alleged excessive tax valuations. These cases are being held in abeyance and the state tax commission has been added as a party respondent. Two tax appeal cases were settled during the period of audit and amounts are reflected in the financial statements. Currently, the Township cannot make an evaluation regarding the likelihood of an unfavorable outcome or an estimate of the amount of potential loss.

The Township is also involved in a zoning lawsuit. The Township does not believe an adverse outcome is likely and has therefore not made an estimate of the amount of potential loss.

TOWNSHIP OF WATERSMEET
NOTES TO FINANCIAL STATEMENTS
March 31, 2006

NOTE R – COMMITMENT

During the year ended March 31, 2002, the Township signed a 5 year contract for police services to be furnished by Lac Vieux Desert. The contract provides the Township make annual payments to Lac Vieux Desert of \$88,000 a year. It is expected that the Township will finance these payments with Class III gaming revenues to be received from the Lac Vieux Desert Band of Indians.

During the year ended March 31, 2006, the Township was billed and paid \$88,000 for services as agreed.

NOTE S – DEFERRED REVENUES

The Township has received advance payments from Lac Vieux Desert for Community Development; Police Services as discussed above; and 2006/2007 waste management collection costs. Upon incurring cost by the Township, the monies will be reclassified as revenues used to defray the reported expenditures.

REQUIRED
SUPPLEMENTAL
INFORMATION

TOWNSHIP OF WATERSMEET
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE- BUDGET TO ACTUAL
GENERAL FUND
Year ended March 31, 2006

| | Budgeted Amounts | | | Variance Favorable (Unfavorable) |
|--|-------------------------|-------------------------|-------------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual Amounts</u> | |
| REVENUES | | | | |
| Taxes | \$382,618 | \$382,618 | \$448,955 | \$66,337 |
| Other taxes | 4,500 | 4,500 | 20,173 | 15,673 |
| Tax administrative fees | 60,560 | 76,489 | 64,921 | (11,568) |
| Licenses and permits | 29,600 | 29,600 | 31,883 | 2,283 |
| Rentals | 1,900 | 1,900 | 3,763 | 1,863 |
| Federal shared revenues | 34,000 | 61,680 | 42,496 | (19,184) |
| State shared revenues | 101,775 | 99,900 | 136,941 | 37,041 |
| Class III gaming revenues | 148,000 | 220,500 | 219,278 | (1,222) |
| Charges for services | 9,500 | 14,000 | 4,222 | (9,778) |
| Interest | 4,000 | 4,000 | 6,835 | 2,835 |
| Other revenue | 1,900 | 34,422 | 13,899 | (20,523) |
| | <u>\$778,353</u> | <u>\$929,609</u> | <u>\$993,366</u> | <u>\$63,757</u> |
| EXPENDITURES | | | | |
| Legislative | \$59,550 | \$71,633 | \$58,695 | \$12,938 |
| General government | 242,902 | 266,452 | 232,326 | 34,126 |
| Public safety | 229,150 | 190,650 | 164,822 | 25,828 |
| Public works | 171,230 | 202,188 | 213,514 | (11,326) |
| Recreation and culture | 17,350 | 18,450 | 19,127 | (677) |
| Other | 86,117 | 88,132 | 60,783 | 27,349 |
| Capital outlay | 120,600 | 171,629 | 144,341 | 27,288 |
| Debt service | | 31,000 | 17,464 | 13,536 |
| | <u>\$926,899</u> | <u>\$1,040,134</u> | <u>\$911,072</u> | <u>\$129,062</u> |
| EXCESS OF REVENUES (EXPENDITURES) | (148,546) | (110,525) | 82,294 | 192,819 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers to/from other funds | | | | |
| EXCESS OF REVENUES EXPENDITURES) | (148,546) | (110,525) | \$82,294 | \$192,819 |
| AND OTHER FINANCING USES | | | | |
| Fund Balance at 3/31/2005 | 393,740 | 393,740 | 393,740 | |
| FUND BALANCE MARCH 31, 2006 | <u>\$245,194</u> | <u>\$283,215</u> | <u>\$476,034</u> | <u>\$192,819</u> |

The accompanying notes are an integral part of the financial statements.

OTHER
FINANCIAL
INFORMATION

TOWNSHIP OF WATERSMEET
MAJOR GOVERNMENTAL FUND-GENERAL FUND
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL
For the Year ended March 31, 2006

| Revenues | <u>Budgeted Amounts</u> | | <u>ACTUAL</u> | <u>VARIANCE</u> |
|---|-------------------------|--------------|---------------|-----------------|
| | <u>ORIGINAL</u> | <u>FINAL</u> | | |
| Taxes: | | | | |
| Current property taxes | \$377,118 | \$377,118 | \$410,149 | \$33,031 |
| Delinquent property taxes | | | 35,858 | 35,858 |
| Commercial forest reserve | 5,500 | 5,500 | 2,615 | (2,885) |
| Swamp taxes | | | 333 | 333 |
| Other taxes | 4,500 | 4,500 | 20,173 | 15,673 |
| Tax administrative fees | 60,560 | 76,489 | 64,921 | (11,568) |
| Total taxes | 447,678 | 463,607 | 534,049 | 70,442 |
| Federal shared revenues | 34,000 | 51,680 | 42,496 | (9,184) |
| State shared revenues | 101,775 | 99,900 | 136,941 | 37,041 |
| Licenses and permits | 29,600 | 29,600 | 31,883 | 2,283 |
| Charges for services | 9,500 | 14,000 | 4,222 | (9,778) |
| Class III gaming revenues | 148,000 | 220,500 | 219,278 | (1,222) |
| Rent | 1,900 | 1,900 | 3,763 | 1,863 |
| Reimbursements | 1,500 | 1,500 | 10,360 | 8,860 |
| Miscellaneous | 400 | 42,922 | 484 | (42,438) |
| Donations | | | 3,055 | 3,055 |
| Interest income | 4,000 | 4,000 | 6,835 | 2,835 |
| | 7,800 | 50,322 | 24,497 | (25,825) |
| TOTAL REVENUES | 778,353 | 929,609 | 993,366 | 63,757 |
| Other financing sources-Transfer from other funds | | | | |
| TOTAL REVENUES AND OTHER FINANCING SOURCE | \$778,353 | \$929,609 | \$993,366 | \$63,757 |

The accompanying notes are an integral part of the financial statements.

TOWNSHIP OF WATERSMEET
MAJOR GOVERNMENTAL FUND-GENERAL FUND
STATEMENT OF EXPENDITURES
BUDGET AND ACTUAL
For the year ended March 31, 2006

| | <u>BUDGETED AMOUNTS</u> | | <u>ACTUAL</u> | <u>VARIANCE</u> |
|---------------------------|-------------------------|---------------|---------------|-----------------|
| | <u>ORIGINAL</u> | <u>FINAL</u> | | |
| LEGISLATIVE | | | | |
| Township Board: | | | | |
| Salaries: | | | | |
| Trustees | | | \$4,920 | |
| Secretary | | | 16,565 | |
| Pension | | | 1,949 | |
| Office supplies | | | 10,349 | |
| Communications | | | 7,000 | |
| Leasing costs | | | 1,853 | |
| Transportation | | | 535 | |
| Printing and publishing | | | 600 | |
| Memberships | | | 9,136 | |
| Refunds | | | 5,622 | |
| Training | | | 21 | |
| Miscellaneous | | | 145 | |
| TOTAL LEGISLATIVE | 59,550 | 71,633 | 58,695 | 12,938 |
| GENERAL GOVERNMENT | | | | |
| Supervisor: | | | | |
| Salary | | | 13,860 | |
| Pension | | | 1,597 | |
| Office supplies | | | 243 | |
| Training | | | 1,212 | |
| TOTAL SUPERVISOR | 17,930 | 17,930 | 16,912 | 1,018 |
| Election: | | | | |
| Wages | | | 1,722 | |
| Pension | | | 110 | |
| Office supplies | | | 374 | |
| Transportation | | | 81 | |
| Training | | | 41 | |
| TOTAL ELECTION | 4,450 | 4,800 | 2,328 | 2,472 |

The accompanying notes are an integral part of the financial statements.

TOWNSHIP OF WATERSMEET
MAJOR GOVERNMENTAL FUND-GENERAL FUND
STATEMENT OF EXPENDITURES
BUDGET AND ACTUAL
For the year ended March 31, 2006

| | <u>BUDGETED AMOUNTS</u> | | <u>ACTUAL</u> | <u>VARIANCE</u> |
|------------------|-------------------------|--------------|---------------|-----------------|
| | <u>ORIGINAL</u> | <u>FINAL</u> | | |
| Assessor: | | | | |
| Wages | | | 25,680 | |
| Office supplies | | | 3,982 | |
| Transportation | | | 1,097 | |
| TOTAL ASSESSOR | 28,830 | 28,830 | 30,759 | (1,929) |
| AUDIT FEES | 7,500 | 7,500 | 6,232 | 1,268 |
| Clerk: | | | | |
| Salary | | | 17,700 | |
| Deputy clerk | | | 4,706 | |
| Fringe benefits | | | 2,043 | |
| Supplies | | | 616 | |
| Transportation | | | 15 | |
| Training | | | 80 | |
| TOTAL CLERK | 26,954 | 26,954 | 25,160 | 1,794 |
| Board of Review: | | | | |
| Salaries | | | 470 | |
| Transportation | | | 200 | |
| Training | | | 278 | |
| BOARD OF REVIEW | 1,620 | 1,620 | 948 | 672 |
| Treasurer: | | | | |
| Salary | | | 19,440 | |
| Deputy treasurer | | | 1,096 | |
| Pension | | | 2,245 | |
| Office supplies | | | 5,201 | |
| Transportation | | | 394 | |
| Training | | | 276 | |
| TOTAL TREASURER | 37,518 | 37,518 | 28,652 | 8,866 |

The accompanying notes are an integral part of the financial statements

TOWNSHIP OF WATERSMEET
MAJOR GOVERNMENTAL FUND-GENERAL FUND
STATEMENT OF EXPENDITURES
BUDGET AND ACTUAL
For the year ended March 31, 2006

| | <u>BUDGETED AMOUNTS</u> | | <u>ACTUAL</u> | <u>VARIANCE</u> |
|---------------------------------|-------------------------|----------------|----------------|-----------------|
| | <u>ORIGINAL</u> | <u>FINAL</u> | | |
| Township Properties: | | | | |
| Wages | | | 30,174 | |
| Pension | | | 2,423 | |
| Supplies | | | 7,010 | |
| Utilities | | | 21,244 | |
| Repair & maintenance | | | 5,189 | |
| Transportation | | | 1,645 | |
| Equipment rental | | | 1,877 | |
| TOTAL TOWNSHIP PROPERTIES | 60,450 | 57,950 | 69,562 | (11,612) |
| LEGAL FEES | 18,000 | 18,000 | 13,085 | 4,915 |
| Cemetery: | | | | |
| Wages | | | 4,343 | |
| Pension | | | 434 | |
| Supplies | | | 41 | |
| Repairs | | | 352 | |
| TOTAL CEMETERY | 9,150 | 9,150 | 5,170 | 3,980 |
| Community Development: | | | | |
| Wages | | | 6,778 | |
| Contributions | | | 26,505 | |
| Membership | | | 235 | |
| TOTAL COMMUNITY DEVELOPMENT | 30,500 | 56,200 | 33,518 | 22,682 |
| TOTAL GENERAL GOVERNMENT | 242,902 | 266,452 | 232,326 | 34,126 |

TOWNSHIP OF WATERSMEET
MAJOR GOVERNMENTAL FUND-GENERAL FUND
STATEMENT OF EXPENDITURES
BUDGET AND ACTUAL
For the year ended March 31, 2006

| | <u>BUDGETED AMOUNTS</u> | | | |
|--------------------------|-------------------------|--------------|---------------|-----------------|
| | <u>ORIGINAL</u> | <u>FINAL</u> | <u>ACTUAL</u> | <u>VARIANCE</u> |
| Public Safety: | | | | |
| POLICE PROTECTION | 108,000 | 108,000 | 88,000 | 20,000 |
| Fire Department: | | | | |
| Wages | | | 7,929 | |
| Office supplies | | | 112 | |
| Supplies | | | 4,352 | |
| Transportation | | | 1,883 | |
| Insurance | | | 859 | |
| Repairs and maintenance | | | 6,903 | |
| Hydrant rental | | | 1,200 | |
| Public utilities | | | 5,949 | |
| Training | | | 930 | |
| TOTAL FIRE DEPARTMENT | 71,050 | 30,050 | 30,117 | (67) |
| HEALTH & WELFARE | 10,600 | 10,600 | 10,368 | 232 |
| Building inspector: | | | | |
| Wages | | | 17,658 | |
| Supplies | | | 1,235 | |
| Transportation | | | 2,872 | |
| Training | | | 1,362 | |
| TOTAL BUILDING INSPECTOR | 19,300 | 21,800 | 23,127 | (1,327) |
| Zoning Board: | | | | |
| Wages | | | 10,464 | |
| Office supplies | | | 227 | |
| Transportation | | | 901 | |
| Publications | | | 1,097 | |
| Miscellaneous | | | 521 | |
| TOTAL ZONING BOARD | 20,200 | 20,200 | 13,210 | 6,990 |

The accompanying notes are an integral part of the financial statements

TOWNSHIP OF WATERSMEET
MAJOR GOVERNMENTAL FUND-GENERAL FUND
STATEMENT OF EXPENDITURES
BUDGET AND ACTUAL
For the year ended March 31, 2006

| | <u>BUDGETED AMOUNTS</u> | | <u>ACTUAL</u> | <u>VARIANCE</u> |
|---------------------------------------|--------------------------------|---------------------|----------------------|------------------------|
| | <u>ORIGINAL</u> | <u>FINAL</u> | | |
| TOTAL PUBLIC SAFETY | 229,150 | 190,650 | 164,822 | 25,828 |
| Public Works: | | | | |
| Highways and streets | 1,000 | 1,000 | 6,143 | (5,143) |
| Street Lighting | 22,600 | 22,600 | 16,081 | 6,519 |
| ANS Project | | 25,958 | 26,752 | (794) |
| Solid Waste: | | | | |
| Wages | | | 28,591 | |
| Pension | | | 2,551 | |
| Disposal fees | | | 131,161 | |
| Supplies | | | 84 | |
| Public utilities | | | 1,398 | |
| Repairs and maintenance | | | 753 | |
| TOTAL SOLID WASTE | 147,630 | 152,630 | 164,538 | (11,908) |
| TOTAL PUBLIC WORKS | 171,230 | 202,188 | 213,514 | (11,326) |
| Recreation and Culture | | | | |
| Parks: | | | | |
| Wages | | | 14,492 | |
| Pension | | | 1,670 | |
| Supplies | | | 1,100 | |
| Utilities | | | 1,571 | |
| Repairs & maintenance | | | 294 | |
| TOTAL RECREATION & CULTURE | 17,350 | 18,450 | 19,127 | (677) |

The accompanying notes are an integral part of the financial statements

TOWNSHIP OF WATERSMEET
MAJOR GOVERNMENTAL FUND-GENERAL FUND
STATEMENT OF EXPENDITURES
BUDGET AND ACTUAL

For the year ended March 31, 2006

| | <u>BUDGETED AMOUNTS</u> | | <u>ACTUAL</u> | <u>VARIANCE</u> |
|----------------------|--------------------------------|---------------------|----------------------|------------------------|
| | <u>ORIGINAL</u> | <u>FINAL</u> | | |
| Other: | | | | |
| Payroll taxes | 26,372 | 26,372 | 22,323 | 4,049 |
| Fringe benefits | 16,245 | 18,260 | 14,985 | 3,275 |
| Contribution | | | 372 | (372) |
| Insurance and bonds | 43,500 | 43,500 | 23,103 | 20,397 |
| TOTAL OTHER | 86,117 | 88,132 | 60,783 | 27,349 |
| Capital Outlay: | | | | |
| Road construction | 104,000 | 124,265 | 117,667 | 6,598 |
| Township Board | | 22,900 | 16,993 | 5,907 |
| Township property | | 14,200 | 9,681 | 4,519 |
| Parks & recreation | 16,600 | 10,264 | | 10,264 |
| TOTAL CAPITAL OUTLAY | 120,600 | 171,629 | 144,341 | 27,288 |
| Debt Service: | | | | |
| Principal | | 31,000 | 12,536 | 18,464 |
| Interest and fees | | | 4,928 | (4,928) |
| TOTAL DEBT SERVICE | | 31,000 | 17,464 | 13,536 |
| TOTAL EXPENDITURES | \$926,899 | \$1,040,134 | \$911,072 | \$129,062 |

The accompanying notes are an integral part of the financial statements

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Supervisor and Members of the Board
Township of Watersmeet
Watersmeet, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Watersmeet as of and for the year ended March 31, 2006, which collectively comprise the Township of Watersmeet basic financial statements and have issued our report thereon dated July 23, 2006. We conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Township of Watersmeet's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing the audit, we considered the Township of Watersmeet's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions are described as follows:

2005-1 Property Ledger

The Township has not implemented inventorying procedures to assure the accuracy of assets being reported upon as well as smaller capital items acquired in past years. The Township lacks a formal, comprehensive listing of all items the Township has ownership of nor has implemented a physical count of such items.

Without performing a physical inventory, the Township has no assurances as their actual holdings or if they are adequately insured against various types of losses.

2005-2 Inadequate controls over Water and Sewer Billings

The Township has assigned the billing, collecting, posting and depositing of water and sewer receipts to one employee without providing proper oversight. Furthermore, not all billing reports were presented for the period under audit. The current billing software program is outdated (DOS) and technical support is no longer available. Numerous prior year balances required additional analysis and adjustment in determining proper year end account balances.

We recommend that a new software program be procured to allow for billing and collection histories to be printed should originals be misplaced. Furthermore, all functions should not be delegated to one individual. The Township may want to incorporate additional personnel to provide proper oversight.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted the above items matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. In addition, we noted other matters involving internal control over financial reporting that have been reported in a separate letter to management of the Township of Watersmeet dated July 23, 2006.

This report is intended solely for the use of management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Members of the Board, is a matter of public record.


Roger J. Kolehmainen PC
Certified Public Accountant

July 23, 2006